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FM AMEMBASSY BAGHDAD  
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INFO RUCNRAQ/IRAQ COLLECTIVE IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000651

SIPDIS

E.O. 12958: DECL: 03/12/2019

TAGS: [ECON](#) [EPET](#) [PGOV](#) [IZ](#)

SUBJECT: IRAQ CONSIDERS STEPS TO BOOST OIL OUTPUT; EARLY  
DEAL ON KURDISH EXPORTS LOOKS LESS LIKELY

REF: A. BAGHDAD 339

[1](#)B. BAGHDAD 388

Classified By: A/EMIN Michael Dodman for reasons 1.4 b+d

[1](#)1. (C) Summary: The GOI is considering a number of steps to improve management of the oil sector and streamline contracting procedures, all with a view to boosting near-term output. The steps, including creation of an Oil and Gas Council led by the PM that would reduce the Oil Ministry's role, were the outcome of a symposium called earlier this month by DPM Barham Salih; all were endorsed in PM Maliki's closing speech at the symposium. The GOI intends to prepare a package of recommendations within two weeks for cabinet approval. The PM also wants to open direct talks with a number of international oil companies as a means of accelerating IOC activity in Iraq. The Oil Ministry's bid rounds for contracts with IOCs will continue. Separately, Oil Minister Shahrastani has put a halt to cooperative efforts between his ministry and the Kurdistan Region, further delaying an agreement on pricing that would permit the immediate export of additional crude oil. End summary.

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DPM Salih's symposium generates ideas  
to reform oil sector management  
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[1](#)2. (SBU) Deputy PM Barham Salih hosted a symposium on oil in Baghdad February 27 - March 1. Participants included senior GOI officials and several dozen invited experts, both Iraqi expats with long history in the oil sector and international experts. Oil Minister Shahrastani and a large MoO delegation were active participants. PM Maliki attended the opening and closing. The conference was arranged at the PM's request to generate recommendations for steps the GOI could take to increase oil output and exports in the near term. As summarized in the PM's final speech, the symposium concluded that serious problems exist with the current operation and management of the oil sector, and that immediate steps need to be taken to introduce technical and organizational solutions that will boost output, including accelerating the introduction of international oil firms (IOCs) in Iraq. (Note: DPM Salih did not invite representatives of the diplomatic corps to attend the symposium, given its technical character. However, he did request the participation of a few USG-funded oil experts. One expert from the USAID-funded Tatweer program and one expert from the MNF-I Energy Fusion Cell attended, along with one embassy econoff. The embassy also provided translation support.)

[1](#)3. (C) In a meeting on March 11, the head of the PM's Advisory Council, Tamir Ghadhban (a former Minister of Oil who was present throughout the symposium), summarized the steps that are underway to implement the symposium's conclusions. A committee, headed by the PM, is drafting a list of formal recommendations for the cabinet to consider. Tamir expects this process will be complete within two weeks (note: many of the conference conclusions, and the proposed remedies, were identified by another committee, chaired by

Thamir, that issued its report in January). Among the steps Thamir considers likely to be put forward:

-- creation of a Supreme Oil and Gas Council that would oversee development of the sector. The PM would chair the Council, which would include several other ministers. Thamir expects that the Council can be created solely on the basis of a cabinet decision. (Note: this is not the "Federal Oil and Gas Council" that would be created on the basis of the stalled hydrocarbons legislation. That Council would also include representatives of the Kurdistan Regional Government (KRG) and the major provinces that produce oil. The proposed Supreme Council would not include regional representatives, and thus would not be a forum for resolving KRG-GOI differences.)

-- re-creation of the Iraq National Oil Company (INOC). As envisioned by Thamir, INOC would remove the many individual state-owned operating companies from under MoO, further reducing the Minister's role. GOI lawyers are now investigating whether this step requires an act of parliament (the INOC law is one of four pieces of legislation that make up the hydrocarbons package), or can be achieved by a cabinet decision that simply rescinds the 1987 decree issued by the Saddam-era Revolutionary Council that moved all of INOC's operations under the MoO. (Comment: the combined effect of these two steps would be to turn the MoO into a regulatory body, with a clear reduction in the power of the Oil Minister.)

-- increasing authorities. The committee is looking at several recommendations to give the operating companies

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increased authority to conclude contracts, hire and manage staff, and bring in more quickly international oil service companies. The idea is to remove bureaucratic delays that exist within the MoO.

-- direct approach to IOCs. Thamir said the PM wants to directly approach a select number of international oil companies with an offer to bring them into Iraq quickly. Thamir said that this concept still required considerable work, with no consensus yet on which firms might be approached. But the hope is that such a process, separate from the on-going bid round, could bring IOCs into Iraq within four months.

14. (C) Thamir confirmed that the GOI remains committed to the MoO's current bidding rounds for service contracts. In a separate conversation with EMIN, Oil Minister Shahrستاني this week confirmed that work on the first and second bid rounds remains on track, and that the MoO is working to amend the model contract to address IOC concerns. Shahrستاني is pleased that the symposium endorsed the bid rounds. He made no reference to the other moves proposed above.

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No hope for quick progress on KRG  
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15. (C) By design the symposium avoided the politically charged issues of cooperation with the KRG on hydrocarbons. This includes the long-term issue of management of hydrocarbon resources in the KR, as embodied in the stalled hydrocarbons legislation, and the more immediate issue of an agreement on pricing that will permit the export of oil from producing fields in the KR. But on March 4, just days after the symposium, Oil Minister Shahrستاني ordered the MoO's Northern Oil Company (NOC) to cease all cooperation with the KRG on oil projects. The immediate issue was a long-running dispute over equipment at the Khurmala Dome, part of the large Kirkuk field that the NOC is working but that lies within the KR; the immediate impact will be to stop work underway to connect the Khurmala Dome with a KRG-licensed

refinery outside of Erbil. But the move also makes it increasingly unlikely that an agreement will be reached between the MoO and KRG that would permit the export of crude from the Tawke field, which is ready to begin export of 50,000 bpd through a pipeline that is ready to be connected to the Iraq-Turkey export route, and a potential 30,000 bpd from the Taq Taq field, which within weeks will be ready to start moving crude via tanker truck for entry into the export pipeline.

¶6. (C) Senior MoO officials assess that there is no likelihood Shahrستاني will reverse his hardline stance on cooperation with the KRG absent an agreement between top KRG and GOI leadership. In light of the many difficult issues that divide the KRG and GOI, observers are increasingly looking ahead to personnel shifts as the best way to overcome obstacles to oil sector cooperation and to find a practical solution to the question of exporting the available KR production. Power sharing talks between the two main Kurdish parties may result in Barham Salih being named the next KRG Prime Minister and the next KRG elections (tentatively scheduled for May) may lead to the departure of KRG Minister of Natural Resources Ashti Hawram. But given tense relations between Salih and Shahrستاني, this alone may not be sufficient. While PM Maliki has given no sign that he is willing to remove Shahrستاني from his position (despite his concerns about management of the MoO, Shahrستاني remains an important political ally of the PM), Shahrستاني himself has Qimportant political ally of the PM), Shahrستاني himself has recently told ministry staff and USG officials that he intends to leave government after the December 2009 national elections.  
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